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Demographic Trends Foreshadow Major Economic and Social Challenges

The United States is experiencing fundamental demographic shifts. Birth rates have declined, average family size has fallen, and people are living longer. Meanwhile, a large influx of immigrants and relatively higher birth rates among the Hispanic population are changing America's ethnic composition, pointing toward a time when no single group can claim ethnic-majority status.

In *A Demographic Perspective on Our Nation's Future*, a documented briefing¹ from RAND's *Population Matters* program, demographer Peter Morrison examines current population trends worldwide and in the United States, discusses implications for the United States, and explores public policy challenges these trends now pose. Morrison concludes that the main challenges are likely to include coping with a reduced workforce and growing elderly population, reducing inequalities and barriers to opportunity, and balancing the competing needs of different generations and ethnic groups. The trends offer opportunities, as well. For example, the emergence of an increasingly prosperous middle class in India and elsewhere could create substantial new markets for U.S. goods and services.

DEMOGRAPHIC TRENDS: THE GLOBAL AND U.S. CONTEXTS

Between 1950 and 1970, fertility rates in the United States dropped from 3.7 children per woman to 1.9; they have risen slightly since then to around 2.0. Fertility decreases in many other industrialized countries were even more pronounced. Recently, many developing countries, including Mexico, China, and India, have undergone a similar transition. Though birth rates in many parts of the developing world remain higher than in the industrial world—and populations have continued to grow—the

decline in birth rates has generally been faster and steeper than that which occurred earlier in the United States. Sub-Saharan Africa and the Middle East are the only major regions of the world where average fertility rates and family sizes have not fallen dramatically.

The global trend toward fewer children per family has heralded significant economic and social transformations. One consequence is a changing age structure. Over time, falling fertility rates mean that populations will have a greater share of adults and a smaller share of children. Although this change occurs gradually, the effects can be long-lasting and profound. One important economic implication of this change is the emergence of large-scale consumerism and commercial markets in developing countries. China and India, for example, the world's two largest nations, are becoming more consumption-oriented. Another implication is that populations with a greater share of workers can respond more successfully to policies aimed at spurring economic development. A fall in fertility and family size also means that more women are available to hold a wider range of jobs. Both of the latter developments can produce powerful economic benefits for countries if adequate education and economic opportunities are available. The East Asian economic "miracle" in the latter half of the 20th century attests to this. Of course, fertility declines do not always translate into economic gains, as the economic stagnation in Russia demonstrates.

In the United States, a distinctive set of factors foreshadows important changes. Morrison sees four key developments:

- the "graying" of the U.S. population, which seems destined to reorder budget priorities and divert resources from education systems
- inequities across generations, such as the "digital divide," which could affect adult employment and training needs

¹The briefing was originally delivered to the National Science Board in February 1999.

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- potentially growing economic disparities tied to education levels, threatening to create a two-tiered society
- an increasingly complex ethnic mosaic with diverging and potentially competing interests

Each of these points is explored in more detail below.

THE U.S. POPULATION WILL CONTINUE TO AGE

Like the rest of the industrialized world as well as some portions of the developing world, the United States has a maturing age distribution (see Figure 1). This means that the average age of the population is gradually increasing. Falling birth rates combined with increased life expectancy mean that the average age of people in the United States will continue to increase.

The trend toward longer life expectancy in itself poses troubling possibilities. Demographers who have studied the dynamics behind this phenomenon have cautioned that the Social Security Administration underestimates the potential extent of future longevity gains. Underestimating the potential life expectancy of future cohorts by even a few months would translate into a massive unforeseen economic liability.

The trend to date carries a clear message: Large cohorts of future elderly, living longer, will absorb an increasing share of resources, leaving a smaller share for competing demands. This development could strain budgets for education and other services that benefit younger people. Furthermore, the number of workers in the prime working years (ages 25–44) will begin to diminish. On the one hand, employers will benefit from increasing numbers of mature, seasoned workers—a bonus for industries seeking experienced employees, some of whom may well pre-

fer part-time work. On the other hand, employers could face shortages of workers during times of economic expansion, which could add to inflationary pressures.

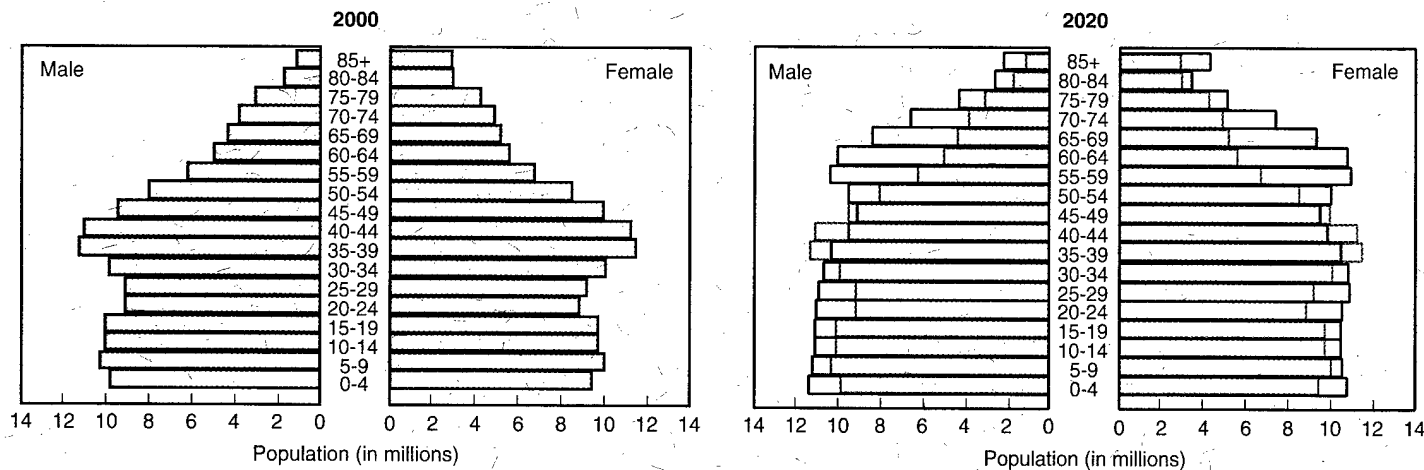
THE “DIGITAL DIVIDE” COULD MAGNIFY INTERGENERATIONAL AND ETHNIC DISPARITIES

A potential generation gap has emerged, as access to computers has made early computer literacy increasingly prevalent. People born since the mid-1980s are members of a generation distinguished by its acquisition of computer literacy during childhood. Among earlier cohorts, computer literacy remains less prevalent. What this digital divide portends over the long term is uncertain. It could imply the need for new or supplemental training for many older workers.

This generation gap parallels an existing digital divide across ethnic lines. Non-Hispanic white Americans are far more likely than African Americans and Hispanic Americans to use computers and have access to the Internet. There is cause for concern that stubborn disparities in computer use and Internet access could create a society of information “haves” and “have-nots.” Tempering this concern is the rapidly rising access among former have-nots as costs of accessing the Internet continue to fall.

ECONOMIC DISPARITIES TIED TO EDUCATION LEVELS COULD WIDEN

Education is increasingly critical to economic achievement and social opportunity. Historically, the nation has seen significant gaps between the average education attained by whites and that attained by African Americans and Hispanic Americans. The economic prospects for



SOURCE: U.S. Census Bureau, *International Data Base*.

Figure 1—The U.S. Population Is Becoming Older

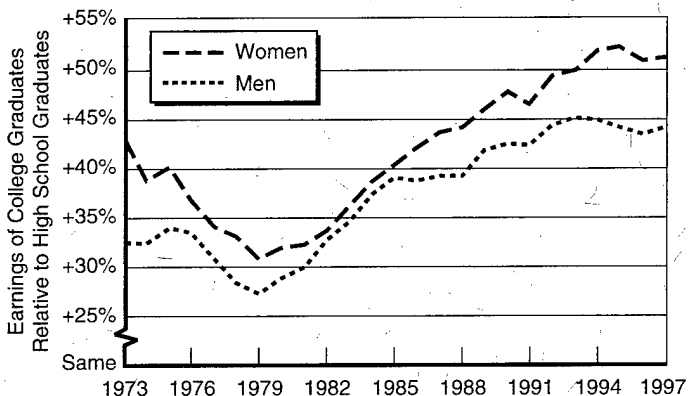
college graduates now diverge more than ever from those of adults who only complete high school.

For men, the wage premium for a college degree holder as compared with a high school degree holder has increased substantially in recent years—from 27 percent higher earnings in 1979 to 44 percent higher in 1997 (see Figure 2). The wage premium for women with college degrees versus women with high school degrees has increased even more—from about 30 percent higher earnings in 1979 to more than 50 percent higher since 1993.

The risk of class stratification driven by educational disparities is real. As the nation's workforce relies increasingly on scientific and technological expertise, these educational disparities may inhibit individual opportunity and also shortchange the nation's scientific enterprise by hindering access for all groups to scientific education and training.

THE U.S. ETHNIC MOSAIC WILL GROW MORE COMPLEX

Another trend reshaping the U.S. demographic landscape is the growing diversity of an already ethnically diverse nation. Recent Census Bureau projections show a population in which people of Hispanic origin will shortly outnumber African Americans. Non-Hispanic white



SOURCE: Economic Policy Institute (1999).

Figure 2—College vs. High School Wage Premium

(Anglo) persons will themselves eventually become a "minority," shrinking to less than half of all Americans (probably before 2060).

The underlying story is the social change likely to accompany this demographic transformation. Inter-marriage is rising, and more Americans can identify themselves as multiracial. Many facets of this trend have already become apparent in California, where the term "minority" (strictly speaking) no longer applies.

The U.S. political system has tended to give voice to minority groups by creating ethnically based districts, premised on the notion that common interests are linked primarily to ethnic identity. Such reinforcement of ethnic separatism is controversial. In recent decisions, the Supreme Court has yet to resolve this fundamental issue of public policy.

The quandary for political decisionmaking is to balance the interests that unify a local community with those that distinguish or divide its members. These issues will arise with increasing frequency as the numeric balance among groups shifts.

POLICY CHALLENGES AHEAD

U.S. demographic trends pose at least three distinct challenges for public policy. Policymakers will need to

- temper the competing interests of distinct groups. Acquisition of computer literacy, access to the Internet, and educational attainment will be central concerns among groups who perceive their children to be at a disadvantage.
- nurture adequate human capital for the nation's scientific enterprise. That challenge calls for policies to strengthen the educational infrastructure, which produces the scientific skills the nation's economy will demand.
- address impediments to individual opportunity, including educational disparities and the remnants of a digital divide.

RAND policy briefs summarize research that has been more fully documented elsewhere. This policy brief describes work done for the Population Matters project of RAND's Labor and Population Program and documented in A Demographic Perspective on Our Nation's Future by Peter Morrison, RAND DB-320-WFHF/DLPF/RF, 2001, 49 pp., ISBN: 0-8330-2984-3. Available free. Population Matters is sponsored by the William and Flora Hewlett Foundation, the David and Lucile Packard Foundation, and the Rockefeller Foundation. Population Matters publications and other project information are available at www.rand.org/labor/popmatters. RAND publications are available from RAND Distribution Services (Telephone: 310-451-7002, or toll free 877-584-8642; Fax: 310-451-6915; E-mail: order@rand.org; or the Web: www.rand.org/publications/order). RAND® is a registered trademark. RAND is a non-profit institution that helps improve policy and decisionmaking through research and analysis; its publications do not necessarily reflect the opinions or policies of its research sponsors.

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